

# INVESTMENT UPDATE AND NTA REPORT

## February 2018

### PORTFOLIO SNAPSHOT

#### NET TANGIBLE ASSET (NTA) BACKING PER SHARE<sup>1</sup>

| AS AT 28 FEBRUARY 2018      | AMOUNT  |
|-----------------------------|---------|
| NTA before tax <sup>2</sup> | \$1.097 |
| NTA after tax <sup>2</sup>  | \$1.094 |

Daily NTA is available at [www.perpetualequity.com.au](http://www.perpetualequity.com.au)

<sup>1</sup>All figures are unaudited and approximate.

<sup>2</sup>The before and after tax numbers relate to provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio. The figures are reduced by a provision for the 3.0 cents per share interim dividend that was declared on 19 February 2018. The ex date for the interim dividend is 20 March 2018 and payment date is 11 April 2018.

### KEY ASX INFORMATION

#### AS AT 28 FEBRUARY 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$291million

Share price: \$1.145

Shares on issue: 253,845,980

### INVESTMENT PERFORMANCE

| AS AT 28 FEBRUARY 2018                    | 1 MTH | 3 MTHS | 6 MTHS | 1 YR P.A. | 2 YRS P.A. | 3 YRS P.A. | SINCE INCEP P.A. |
|-------------------------------------------|-------|--------|--------|-----------|------------|------------|------------------|
| PIC Investment Portfolio <sup>3</sup>     |       |        |        |           |            |            |                  |
| Net of fees, expenses and before tax paid | -2.3% | -1.9%  | 5.0%   | 11.3%     | 13.2%      | 9.1%       | 9.0%             |
| S&P/ASX 300 Acc Index                     | 0.3%  | 1.8%   | 7.7%   | 10.3%     | 16.0%      | 5.2%       | 9.5%             |
| Excess Returns                            | -2.6% | -3.7%  | -2.7%  | +1.0%     | -2.8%      | +3.9%      | -0.5%            |

<sup>3</sup>Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014.

### TOP SECURITIES

#### TOP 5 AUSTRALIAN LISTED SECURITIES

| COMPANY                      | PORTFOLIO WEIGHT |
|------------------------------|------------------|
| Westpac Banking Corp         | 9.4%             |
| Woolworths Ltd               | 7.0%             |
| Star Entertainment Group Ltd | 6.2%             |
| Incitec Pivot Ltd            | 4.7%             |
| Suncorp Group Ltd            | 4.6%             |

#### TOP 3 GLOBAL LISTED SECURITIES

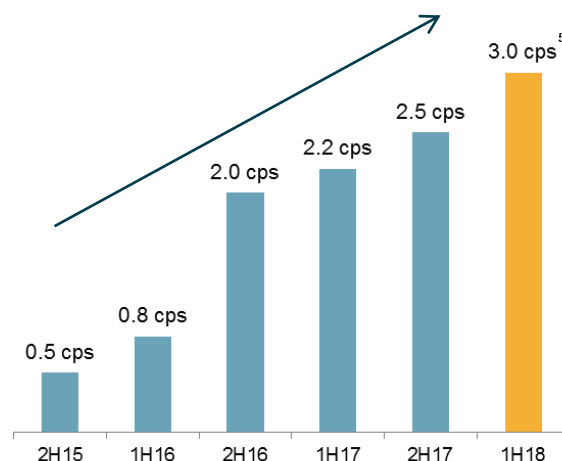
| COMPANY       | PORTFOLIO WEIGHT |
|---------------|------------------|
| Shire PLC     | 10.2%            |
| AXA SA        | 3.2%             |
| Unicredit Spa | 0.7%             |

### DIVIDEND PER SHARE, CPS

1H18 interim dividend: 3.0 cents per share

Annual dividend yield: 4.8%<sup>4</sup>

Grossed up annual dividend yield: 6.9%<sup>4</sup>

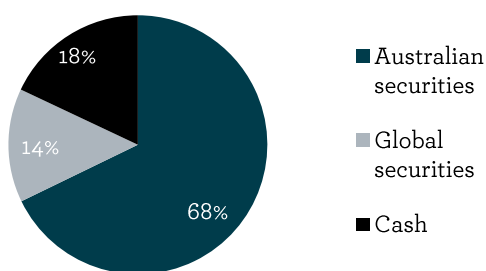


<sup>4</sup>Yield is calculated using the 2H17 dividend, the 1H18 dividend and the 28 February 2018 share price of \$1.145. Grossed up yield takes franking credits into account.

<sup>5</sup>Dividend announced 19 February 2018. Record date for the 1H18 dividend is 21 March 2018 and payment date will be 11 April 2018.

## ALLOCATION OF INVESTMENTS

82% of capital invested in securities.



## PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was -2.3% in February underperforming the benchmark S&P/ASX300 Accumulation Index by -2.6%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 9.0% per annum net of fees and expenses.

Portfolio holdings in Woolworths, NAB and Suncorp contributed positively to performance this month. Conversely, the portfolio's positions in Star Entertainment Group, Shire PLC and Woodside detracted from returns.

## STOCK NEWS

Suncorp Group (SUN) is a A\$18b financial conglomerate based in Queensland. As at 28 February the portfolio's allocation to SUN was 4.6%. SUN's operations span Banking, General Insurance and Life Insurance. SUN is the second largest General Insurer in Australia with approximately 30% market share in personal lines. SUN writes general insurance under the brand names of AAMI, VERO, Bingle, Shannon's and Suncorp. SUN also owns Australia 6th largest bank and is the 7th largest life insurer.

Over the last three years, the general insurance market in Australia has been under significant pressure on the topline and margins. Certain short-tail lines like Commercial Motor, Personal Motor and Commercial Property have been running at a Combined Ratio of over 100%. A Combined Ratio of over 100% implies an operating loss and a Combined Ratio of 100% means the product line is breaking even after claims and operating expenses. The only way for insurers to bring the loss making books into profitability is to push rates higher and at the same time actively manage costs. For the past 6-12 months, rates increases across Commercial Property and Commercial Motor have been building steadily to mid-single digit levels. Claims inflation in Personal Motor have led to rate increases of 3-5% across the board. SUN with its integrated smash repair model has an advantage in tackling the motor claims inflation currently being experienced by the broader industry.

There is little debate about the insurance pricing cycle in Australia. Personal and Home rates are moving higher. SUN has been able to deliver volume growth in Motor, for the first

time in a few years. The Manager suspects this volume increase is at the expense of some of the challenger brands. The personal lines are slowly delivering margin expansion. SUN has also announced an ambitious business improvement programme. If SUN can deliver on the cost-out programme while riding the wave of a firming insurance market then the Manager believes that SUN's target of 10% cash return on equity by FY19 is very achievable.

## MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, crept higher during February to post a 0.3% gain. Investors were kept busy as the majority of Australian companies reported their first-half earnings for FY2018. An overall satisfactory sentiment was felt by the market as 98% of companies recorded a profit, with 38% exceeding expectations and 35% falling short. Commodity prices were mixed over the month, with iron ore surging 8.8% to assist the miners, however base metals lost ground as the London Metals Exchange Index fell 2.7%, weighed down by aluminium (-3.0%), zinc (-3.3%) and lead (-4.8%) which constrained the miners. Energy companies also took a hit as the oversupply of crude oil in the US and an increased oil rig count saw Brent and WTI crude prices slump 5.6% and 4.5%, respectively. Gold dipped 2.0% to \$1,318/oz. on the back of a rallying US dollar.

In economic news, the Reserve Bank of Australia continued to leave interest rates on hold at 1.5%, indicating that unemployment and inflation targets were progressing, however acknowledged that further improvement was likely to be a gradual process. Building approvals fell 20% while house price expectations continued to soften around Australia. Wage growth reported in February grew at 0.6% for the final quarter of 2017 however the unemployment rate remained steady at 5.5%. Consumer confidence was notably weaker during February however business conditions for January were reported as improving. Retail stocks came under pressure with aggregate sales reported for December falling 0.5%, impacted mostly by household goods and department store sales, however, supported by stronger food sales.

The Australia market defied its global peers as most developed markets ended in negative territory. The MSCI World Net Total Return index in AUD declined 0.4%, dragged down by Energy and REIT stocks. The S&P500 fell 3.9%, the FTSE 100 dropped 4.0%, the DJ Euro STOXX 50 lost 4.7% and the MSCI China Price Index fell 6.4% during February. Net-Exporting firms were assisted by a weakening Australian dollar which slumped against most of its major trading partners, dropping 3.0% in trade-weighted terms, -3.2% against the Chinese RMB and by -3.6% against the US dollar.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Health Care

(+7.0%), Consumer Staples (+2.1%) and Information Technology (+1.7%). The worst performers were Telecommunication Services (-6.2%), Energy (-3.8%) and Real Estate (-1.9%).

As a whole, industrial stocks (+0.6%) outperformed resource stocks (-0.7%) and large cap stocks (+0.3%) outperformed small cap stocks (+0.0%). Value stocks (-0.2%) underperformed growth stocks (+0.7%), as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## KEEPING YOU INFORMED

### HALF YEAR RESULTS TELECONFERENCE

The Board would like to thank those who dialed into our 1H18 investor update teleconference on Wednesday 7th March.

If you were unable to join us the teleconference is now **available for on-demand viewing**, please [click here](#).

## NEWS & INSIGHTS

### WHAT IS A LISTED INVESTMENT COMPANY?

Demand for listed investment companies (LICs) continues to grow as individual investors and SMSF trustees look for investment solutions that are easy to access and managed by experienced investment professionals. Annie Rozenauers helps to answer some key questions you may be considering in this new educational video. [Watch Now](#)

## INVESTMENT PHILOSOPHY

### INVESTMENT OBJECTIVE

The investment objective of the Company is to provide investors with a growing income stream and long-term capital growth in excess of its benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods.

### INVESTMENT STRATEGY

The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities.

The Company will provide investors with the opportunity to invest in an actively managed portfolio and to gain access to the investment management experience and expertise of the Manager.

### ABOUT THE MANAGER

The Company's investment portfolio is managed by Perpetual Investment Management Limited, part of the Perpetual Group, whose consistent track record of investing excellence is underpinned by its proven investment process that focuses on value and quality.

### PORTFOLIO MANAGER

Vince Pezzullo - Perpetual Investments  
Vince has over 20 years' experience in the financial services industry, has outperformed consistently and has prior global experience as both an analyst and a portfolio manager. Vince leverages the expertise of the Perpetual Investments' Equity team, one of the largest investment teams in Australia.

## PERPETUAL KEY CONTACTS

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